PRODUCER EQUILIBRIUM

Ql. What is producer equilibrium?

Ans. It refers to that price and output combination which brings maximum profit to the producer & profit decline as more is produced.

Q2. What is profit?

Ans. It is refers to excess of received from the sale of good over the expenditure incurred them.

Q3. What is the condition of producer equilibrium?

Ans. l. **<u>MC = MR</u>**: - As long as MC is less than MR, it is profitable for the producer to go on producing more, because it adds to profit He will stop only when MC = MR.

2. **<u>MC IS GREATER THAN MR AFTER MC = MR</u>**: - When MC is greater than MR after equilibrium it means producing more will lead to the decline in profit.

Q4. When producer is equilibrium when price remain constant?

Ans. Producer is in equilibrium when he satisfy two condition.

1. MC should equal to MR.
2. 2. MC must be greater than MR after MC = MR.

Output	**Price**	**TR**	**TC**	**MR**	**MC**
1	12	12	13	12	13
2	12	24	25	12	12
3	12	36	34	12	09
4	12	48	42	12	08
5	12	60	54	12	12
6	12	72	68	12	14

Producer Equilibrium (MR = MC)

Diagram:

- Producer is in equilibrium at K because it satisfy both the condition MC =MR & MC is greater than MR after MC =MR.
- Point R is not an equilibrium point because producer can increase his revenue by producing more till point K. because cost is less than revenue.
- Producer would be in loss if he produce after point K because MC is greater than MR after point K.

Q5. Producer equilibrium when price fall with rise in output?
Ans. Producer will be in equilibrium if price is not same where he satisfy following two condition.

1. MC = MR

2. MC must be greater than MR after MC = MR.

Output	Price	TR	TC	MR	MC
1	8	8	6	8	6
2	7	14	11	6	5
3	6	18	15	4	4
4	5	20	20	2	5
5	4	20	26	0	6

When price falls with rise in output.

Diagram:

- Producer is in equilibrium at point E. When he produces till 3 units because both the conditions are satisfied.
- If producer produce before point E as he can increase his revenue by producing more.
- If producer produce at point E again he will be in loss. Because cost is more than revenue.